

Top Secret

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NATIONAL INTELLIGENCE DAILY CABLE

Monday 31 October 1977 CG NIDC 77/252C

NATIONAL SECURITY INFORMATION

Unauthorized Disclosure Subject to Criminal Sanctions

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National Intelligence Daily Cable for Monday, 31 October 1977

The NID Cable is for the purpose of informing senior US officials.

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ISRAEL: Reform Package

25X1 [] *The Israeli Government's new economic austerity and reform program marks a sudden shift away from 30 years of socialist-oriented policies. Prime Minister Begin and his opponents recognize that the government faces a major test of its political strength over the new program.*

25X1 [] The principal measures in the program allow the Israeli pound to float freely and remove most foreign exchange restrictions. Israelis can now hold as much foreign currency as they desire at home and take limited quantities outside the country. The government also increased fuel prices by 25 percent--bringing gasoline to \$2.40 a gallon--and increased the value added tax on business by 50 percent.

25X1 [] Finance Minister Ehrlich estimates that the Israeli pound will drop from 10.4 to 15 per US dollar and that the rate of inflation will jump to 35-40 percent--some 10 percent above the rate expected this year. Prices of basic subsidized commodities such as bread, eggs, milk, frozen meat, electricity, and public transportation are expected to rise by 15 percent.

25X1 [] The government hopes the program will make Israel more attractive to foreign investors. Ehrlich believes that some \$3 billion illegally held by Israelis abroad will flow back to Israel. The government has periodically devalued the pound by small amounts, and tense minidevaluations may have eroded confidence in the pound. Devaluations have reduced the value of the pound from 25 to 10 cents since 1974, one of the largest currency changes undertaken by any country in recent years.

25X1 [] Since 1948, Israel essentially has had a socialist, labor-oriented economy, with strict restraints on the use of foreign exchange and high consumer subsidies. Moreover, the Histadrut labor organization owns or controls most of Israel's major industries.

25X1 [] Begin is billing the program as a legitimate reform that was launched at a time when the economy was recovering fairly well. Opponents--the Labor Party and the Histadrut--have attacked the measures as overly austere. They claim that the

Gross National Product is increasing at a desirably moderate rate and that earlier devaluations, price hikes, and subsidy cuts already have limited gains in real wages or consumer purchasing power.

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[] We do not expect the program to seriously affect the economic recovery now underway. We estimate that GNP is currently rising at about a 5 percent rate. The GNP rise is led almost entirely by exports, which now equal nearly half the national product, and the pound float should further stimulate export industries. Industrial production rose 9 percent during the first half of this year compared with second half 1976, and the improvement continued into the third quarter. Inventories are being worked down, and new investment in plants and equipment has picked up.

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[] The new program will enable Israel further to improve its balance-of-payments position. We estimate that Israel will have a \$2 billion current account deficit this year--a deficit which will be more than covered by US assistance and other capital inflows. Israel should have a \$350 million overall surplus to add to reserves or to reduce short term debt. With further improvement expected next year, Israel should finally reach a comfortable reserve position.

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[] The main obstacle to both the reform program and recovery efforts is labor. The Histadrut has announced that it will seek immediate wage compensation for the cost of living hike and said that it will be hard-nosed when new wage packages are negotiated in January. More than a "catch up" wage increase would jeopardize Begin's effort to hold down inflation and achieve stability of the pound. Protest strikes called by the Histadrut began yesterday with brief walkouts by postal and communication workers. Longshoremen have slated a stoppage for today.

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[] The Israelis are beginning to run into serious labor shortages, which are constraining economic growth. These shortages result from the continuing priority the Israelis place on military manpower requirements, the rising net emigration of Israeli citizens, and the departure of West Bank Arabs for higher paying jobs in Jordan and the oil rich states. Without an easing of the military burden, Israel will not be able to return to the pre-1973 average growth rate of 10 percent.

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25X1 [] The Begin government faces a major test of its political strength over these measures, which both the Prime Minister and his opponents realize could have far-reaching economic and political ramifications. The badly divided Labor party leadership and its allies in the Histadrut feel especially threatened; they justifiably believe that these moves are only the first in a government effort to dismantle the socialist sector of the economy.

25X1 [] As a result, Labor leaders have temporarily closed ranks and called for protest demonstrations and more strikes to force the government to back down, or at least to refrain from taking further steps they oppose. If they fail, they know Begin is likely to attempt more direct moves to weaken the Histadrut, and by extension the Labor party.

25X1 [] Begin's endorsement of the program has also created some dissatisfaction within the governing coalition, especially in his own Herut party. David Levy, a Herut leader, was the only minister in the cabinet to vote against the economic reform package. Herut leaders believe that their poor, working class constituents will bear the brunt of these measures and that Finance Minister Erhlich, the architect of the reforms, and his Liberal party business-class constituents will benefit the most. Although still under Begin's firm control, Herut leaders are also unhappy about being cut out of important foreign and economic policy decisions by the prime minister. []

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DENMARK: Foreign Minister Visits

25X1 [] Danish Foreign Minister Andersen arrives in Washington today for a three-day visit. In talks with US officials, Andersen hopes to set the stage for greater US-EC cooperation in 1978, when Denmark assumes chairmanship of the EC for the second time. The Foreign Minister will discuss US-EC cooperation on various political and economic issues and will exchange views on NATO and energy problems.

25X1 [] Andersen has long advocated closer US-EC relations, and he will work to prevent confrontations between the EC and US. Noting the close correspondence of US and Danish interests, Andersen wants to be informed of US views well in advance of meetings among the EC political directors.

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25X1 [] Conflicts between the US and EC are most likely to develop over energy issues. Andersen will probably seek US views on nuclear waste disposal. He may also urge the US to push energy conservation in order to reduce reliance on oil and the bargaining power of the Organization of Petroleum Exporting Countries.

25X1 [] Andersen and Danish Prime Minister Jorgensen have recently sought to enhance Denmark's image within the EC. Both stress that Denmark should place less emphasis on purely national goals and work more to foster Community goals. As a result, Denmark has been able to minimize frictions with other EC states, particularly Great Britain.

25X1 [] Many Danes, however, feel the government is caving in to EC pressure at the expense of Danish interests. The most recent poll shows that only 33 percent of the populace support Danish membership in the EC; when Denmark joined the EC, 60 percent of the Danes favored membership.

25X1 [] The growing number of anti-marketeers in the Social Democratic Party presents Andersen and Jorgensen with a serious problem. Without the full backing of his party, Jorgensen probably cannot count on the non-socialist parties to continue to support his minority government. Andersen, then, could face a situation similar to that of 1973 when his term at the EC helm ended prematurely after elections ousted his party from power.

25X1 [] Andersen's political career began with his election to parliament in 1957. After serving in parliament for 13 years, he resigned to become secretary general of the Social Democratic Party. He won a reputation as a superb administrator and party strategist, and his organizational reforms and ability to motivate others largely accounted for the Social Democrats' surprising gains in 1971. Andersen became Foreign Minister when former Prime Minister Krag formed a government in 1971 and has since served in three cabinets headed by Jorgensen.

25X1 [] Andersen is a staunch friend of the US, although he criticized the US role in Vietnam. He sees NATO as the pillar of Danish defense, and backs US positions on detente, disarmament, and human rights.

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[redacted] He has come under criticism in Denmark for stating that the West should have pre-empted the Cubans in Angola by supporting the liberation movement headed by Angolan leader Neto. Andersen probably explained these remarks to Cuban President Castro, whom he met while visiting Cuba over the weekend. He was the first foreign minister of an EC member-state to visit Cuba.

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FRANCE-POLARISARIO: Kidnaping

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[REDACTED] *The French government has reacted sharply to the kidnaping last Tuesday of two more French citizens by the Polisario guerrillas in Mauritania. Following a cabinet meeting on Thursday, Defense Minister Bourges stated that the government excluded no means to get the hostages back. The Algerian government, which backs the guerrillas, has denounced the statement, but the Algerians have also offered to aid in negotiations.*

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[REDACTED] Thirteen Frenchmen have disappeared in Mauritania since 1976; they presumably were kidnaped by the Polisario. The French media have been pressing the government to do more to obtain the release of the men, and the latest kidnappings have embarrassed the government and forced it to make a dramatic gesture.

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[] Algeria has reacted angrily to French hints of intervention and issued a veiled warning that bilateral relations will suffer if France becomes more deeply involved in the Saharan conflict. The Algerian Foreign Ministry, however, tried to calm the situation over the weekend by suggesting that Paris use international and humanitarian channels employed in previous incidents. []

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BRIEFS

Namibia - South Africa

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[] South Africa has reported a new outbreak of fighting between its military forces and guerrillas of the South West Africa People's Organization along the Angolan-Namibian border. According to an official communique, 61 guerrillas and five South African troops were killed in a 36-hour battle that ended on Saturday. []

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Surinam

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[] Surinam's Prime Minister Henck Arron and his predominantly black ruling National Party Combination coalition face a serious challenge in today's parliamentary election from East Indian patriarch Jaggernath Lachmon and his United Democratic Parties coalition. This will be the first election since Surinam gained independence from the Netherlands nearly two years ago. The campaign's major issue has been how Surinam can best spend the over \$1-billion assistance package promised by the Dutch at the time of independence. Neither Arron nor Lachmon is inclined to alter the status quo in Surinam nor to threaten Alcoa's subsidiary Suralco, which constitutes the major US investment in the country. []

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